

introducing...

HRAVEBA



A health
reimbursement
arrangement for public
employees in the
Northwest

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Service Representative

King County

Agenda



- What is HRA VEBA?
- General Plan Information
- About the HRA VEBA Trust
- Growing Cost of Post-Employment Healthcare
- Contributions, Earnings and Withdrawals
- Benefits vs. Conditions (IRS rules)
- Defining Groups
- Group Adoption
- Contacts & Questions

What is an HRA?

- Defined by IRS as a “health reimbursement arrangement”
- Reimburses healthcare expenses for employee, spouse and qualified IRS dependents
- Funded by employer
- No individual choice
- Not a health savings account (HSA)
- Not an IRC Section 125 flexible spending account (FSA)

What is the HRA VEBA plan?

- Health reimbursement arrangement (HRA)
- Accepts *tax-free* contributions
- Provides *tax-free* earnings
- Allows *tax-free* withdrawals for qualified out-of-pocket healthcare expenses and premiums



What does “**tax-free**” really mean?

- ***Tax-deferred*** plans (TSA, 457, IRA, etc.)
 - Subject to FICA (7.65%)
 - Postpone federal income tax
- ***Tax-free*** HRA VEBA plan
 - No FICA or federal income tax on employer contributions, retiree’s earnings or withdrawals
 - Save up to \$300 or more in taxes for every \$1,000 contributed to the HRA VEBA plan

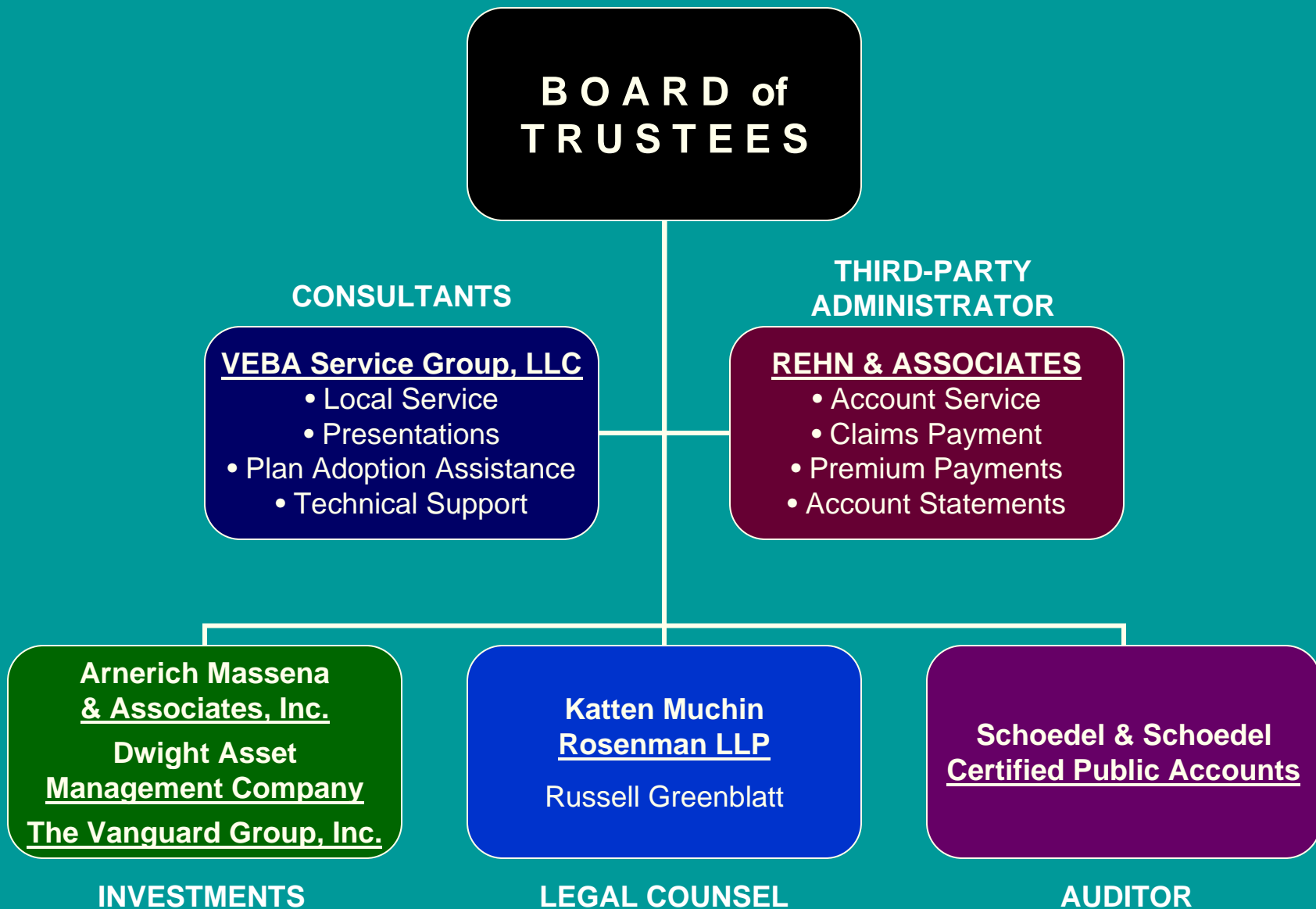
About the HRA VEBA Trust

- Created in 1990
- Non-profit, tax-exempt employee benefit trust
- Authorized by IRC Section 501(c)(9)
- For public employees in the Northwest
- IRS Letter of Determination updated in 2000
- \$43,000,000+ in assets
- Nearly 200 participating employers
- Approximately 21,500 active participants

Other Notable Employers

Employer Name	Plan Assets
Seattle School District	\$1.5 MM
University of Washington	\$2.1 MM
Washington State University	\$948,700
Department of Social & Health Services (WA)	\$1.9 MM
Department of Transportation (WA)	\$1.2 MM
Department of Corrections (WA)	\$599,800
City of Portland	\$2.1 MM
Multnomah County (OR)	\$2.25 MM
City of Tacoma	\$494,382
Benton County (WA)	\$2.1 MM

HRA VEBA Trust Operations



HRA VEBA Trustees

Representing Special Purpose Districts	Andrew Michels ●Port of Tacoma	Steve Sandelius ●Southwest Suburban Sewer and Water District	Wyatt Scheibner ●Douglas County PUD
Representing Cities and Counties	Doug Detling ●City of Medford	Viki Jessop ●City of Tukwila	Diana Ransom ●Benton & Franklin Counties

About VEBA Service Group, LLC

- Nationally recognized HRA consulting firm
- 21+ years specializing in HRA plan design and implementation
- Coordinates HRA VEBA Trust activities and consulting
- Provides local service and consulting
 - Meet with management team and union leadership
 - On-site educational group meetings
 - On-going local service and support

About REHN & ASSOCIATES

- Over 40 years' experience providing third-party administration services for health reimbursement plans
 - Accepts and processes employer contributions, generates remittance reports
 - Daily claims processing
 - Account information changes
 - Semi-annual participant account activity statements
- Qualified staff with extensive HRA administration training and experience
- 99.2% claims accuracy in 2005
- Based in Spokane

\$300,000 Growing Cost

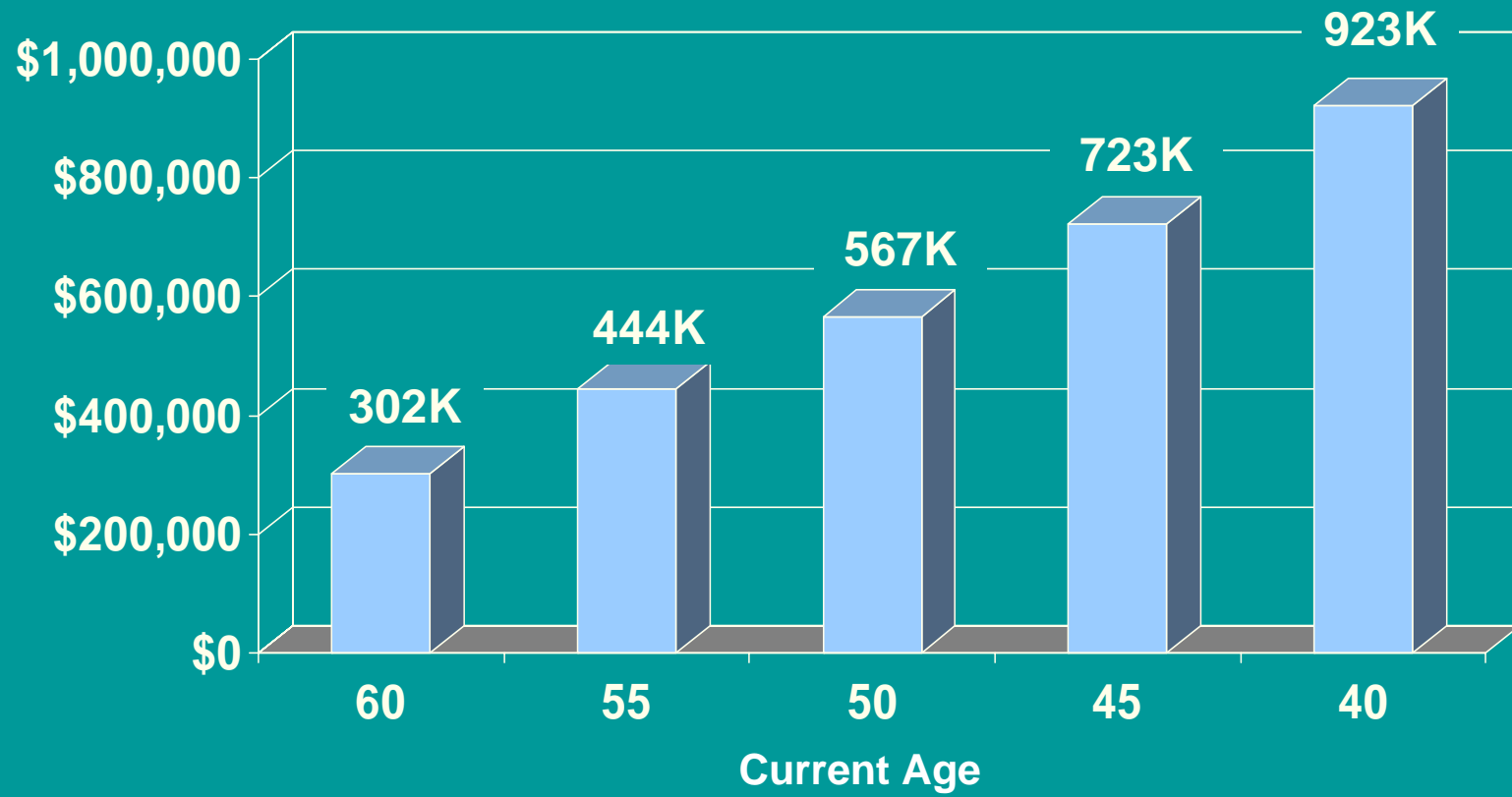


***Health care will
take a **big bite**
out of your
wallet!***



- Your post-employment healthcare costs could exceed **\$300,000**
 - You and your spouse retire today at age 60
 - Normal life expectancy to age 84
 - Retiree medical plan until age 65
 - Medicare Part B and Medicare supplement plan after age 65
 - Retiree dental insurance plan
 - \$500/year incidental out-of-pocket (deductibles, co-payments, etc.)
 - 5% annual increase in costs

How much will you need?



HRA VEBA Can Help

- Turn-key HRA plan
- For employee (retiree), spouse and dependents
- Create tax-free vehicle to pay retirement medical costs
- No “use-it-or-lose-it”



King County HRA VEBA Proposed Contribution Option

- Sick leave cash-out at retirement
 - 35% conversion of unused hours
 - Contributed tax-free to HRA VEBA
 - If adopted, no individual choice to receive taxable cash payment in lieu of HRA VEBA contribution

Tax-free Contributions

Sick Leave Cash-out (Example #1)



Paid As	Cash-out Amount	25% FIT (assumed)	7.65% FICA	Net Amount
Taxable Wages	\$2,500	<\$625>	<\$191>	\$1,684
HRA VEBA Contribution	\$2,500	n/a	n/a	\$2,500

HRA VEBA Advantage = \$816

Tax savings will vary depending upon employee tax bracket.

Tax-free Contributions

Sick Leave Cash-out (Example #2)



Paid As	Cash-out Amount	25% FIT (assumed)	7.65% FICA	Net Amount
Taxable Wages	\$7,500	<\$1,875 >	<\$574>	\$5,051
HRA VEBA Contribution	\$7,500	n/a	n/a	\$7,500

HRA VEBA Advantage = \$2,449

Tax savings will vary depending upon employee tax bracket.

Tax-free Contributions

Sick Leave Cash-out (Example #3)



Paid As	Cash-out Amount	25% FIT (assumed)	7.65% FICA	Net Amount
Taxable Wages	\$15,000	<\$3,750 >	<\$1,147 >	\$10,103
HRA VEBA Contribution	\$15,000	n/a	n/a	\$15,000

HRA VEBA Advantage = \$4,897

Tax savings will vary depending upon employee tax bracket.

Investments

- Three investment funds
 - Stable Value
 - Balanced
 - Growth
- Earnings are tax-free
- Participant-directed
- Can select any combination of funds
- Can change monthly



Tax-free Earnings

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
Stable Value	1.17%	1.30%	1.76%
Balanced	7.06%	10.18%	3.18%
Growth	9.22%	14.71%	1.47%

Annualized average returns net of all expenses for period ending March 31, 2006. Updated quarterly.

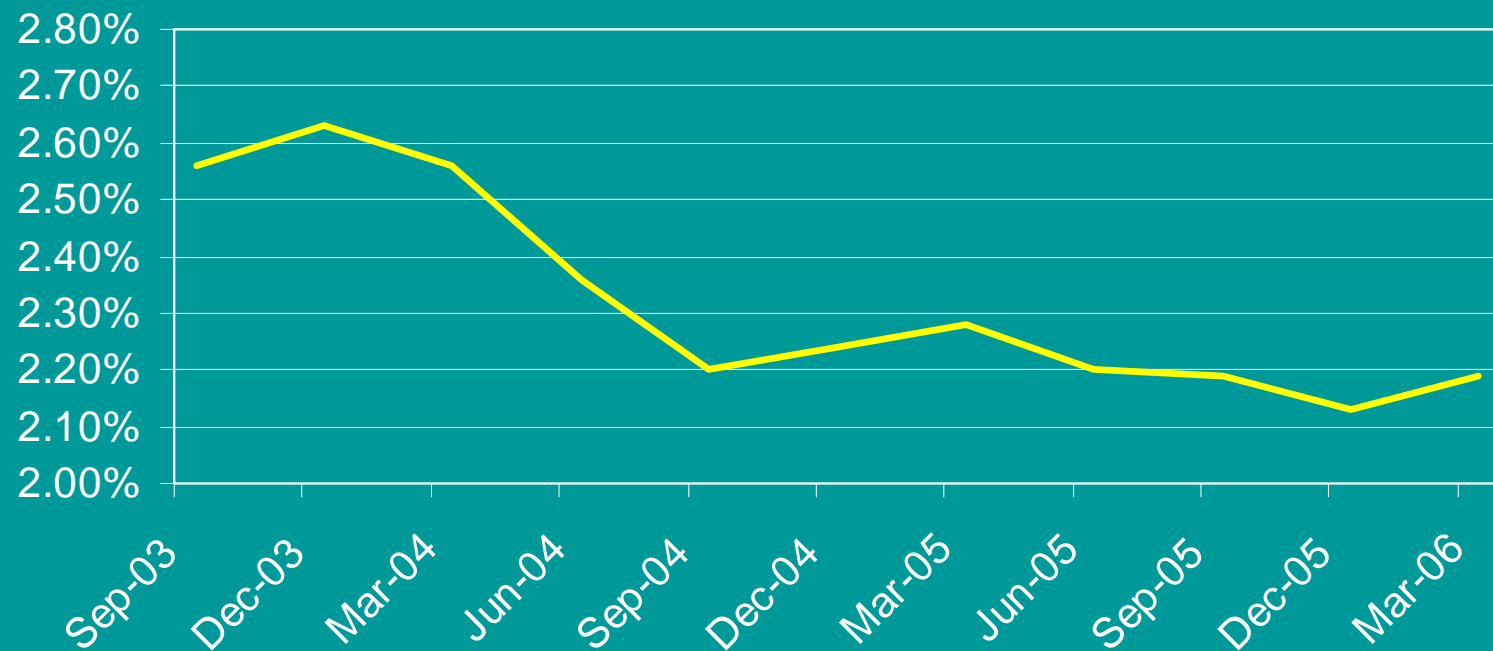
Investment Funds

- Beginning in 2007
 - A total of 6 investment funds will be available
 - In addition, a series of 3-5 recommended pre-mixed asset allocation portfolios will be offered, for a total of 9-11 funds
 - Stable Value fund will remain unchanged

Plan Expenses

- Paid by reduction to investment earnings
- Net earnings (+/-) credited monthly
- Monthly fee
 - \$1.50 per account
- Administrative and operating expenses
 - 1.00% to 1.20% of average net assets (annualized)
- Applicable fund management fees
 - Varies by investment fund

Declining Expense Ratio



Tax-free Withdrawals (Claims)

- Can be submitted anytime *after becoming a participant*
- Efficient, hassle-free
- Processed daily from Spokane
- Mail, fax or e-mail to third-party administrator (TPA),
REHN & ASSOCIATES



Tax-free Withdrawals (Claims)

- Systematic (automatic) payment of post-employment premiums available
- Direct deposit of reimbursements available
- Required claims documentation
 - Explanation of Benefits (EOB)
 - Itemized bill or statement from provider
 - Itemized receipts for prescriptions and OTC medications
 - Detailed co-pay or office visit receipts

Whose expenses are eligible?



- Employee (retiree)
- Spouse
- Qualified IRS dependents
 - Children
 - Elderly parents, etc.

Qualified Expenses

- Out-of-pocket healthcare expenses defined in IRC Section 213(d)
 - Co-payments, deductibles, co-insurance, prescription drugs
 - Crowns, root canals, orthodontia
 - Eyeglasses, contact lenses, etc.
 - Eligible over-the-counter (OTC) medications

Qualified Insurance Premiums

- Post-employment premiums
 - Medical
 - Dental
 - Vision
- Long-term care (LTC)
 - Must be tax-qualified
 - Subject to IRS limits
- Medicare Part B and Part D
- Medicare supplement plans (Medigap)



Death Benefit

- Account can continue to be used by
 - Surviving spouse
 - Dependents
 - Heirs (if no spouse or dependents remain)
- Reimbursements to surviving spouse and dependents are tax-free
- Reimbursements to heirs are taxable

King County Health Reform Initiative

- HRA VEBA is a good attendance incentive; it encourages employees to stay healthy resulting in long-term sick leave accrual
 - Opportunity to create excellent retiree healthcare funding vehicle
 - Participants choose how to best use account to meet personal needs & goals

Benefits vs. Conditions (IRS Rules)

- Benefits

- *Tax-free* contributions
- *Tax-free* earnings
- *Tax-free* withdrawals



- Conditions (IRS rules)

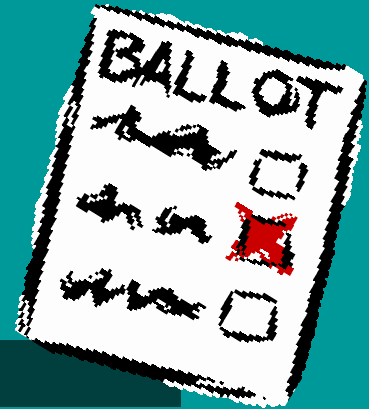
- Withdrawals for qualified healthcare expenses only
- All employee group members defined as eligible must participate (no individual choice)

Employee Groups

- Each collective bargaining unit (represented employees)
- Staff not covered by collective bargaining (non-represented)



Group Adoption & Renewal Process



- Information outreach
- Group act on HRA VEBA plan
 - Bargaining units act individually
 - Eligible non-represented employees vote
- Group decision binding on retirees from that group January 1, 2007 to December 31, 2009
- Groups will reconsider HRA VEBA decision in 2009

Retiree Enrollment Process

- Membership Enrollment Forms distributed to eligible retirees
- Retirees return completed forms to employee benefits office
- Completed forms and contributions sent from employer to TPA
- Accounts opened and Welcome Packets sent from TPA to new participants (retirees)

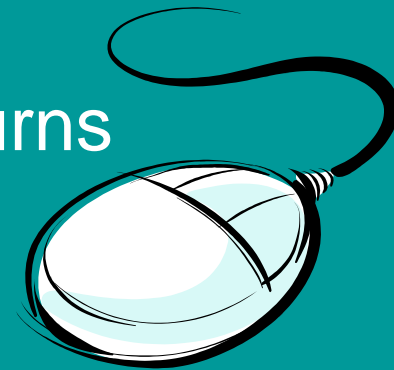
Timeline

- June/July 2006
 - Informational group meetings held
- August 2006
 - Adoption process by groups begins
- September 18, 2006
 - Deadline for group decisions to be reported to Payroll
- January 1, 2007 to December 31, 2009
 - HRA VEBA in effect for retirees of participating groups
 - Retirees Enroll

Your HRA VEBA Plan Online

www.hraveba.org

- Review account activity
- Change investment fund allocation
- Update personal account information
- Plan information
- Quarterly investment fund returns
- Printable forms



Contacts



- ✓ Account Information
- ✓ Claims Assistance
- ✓ Address Changes
- ✓ Account Changes

(1-800-832-2101)

1-800-VEBA101

Contacts



- ✓ Group Presentations
- ✓ Technical Support
- ✓ Plan Information
- ✓ Adoption Assistance

Mike Smolko

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1-800-422-4023

Conclusion

The **HRA VEBA** plan is an innovative, **tax-advantaged** HRA designed to help fund the healthcare needs of employees and their families.

Questions?